

GAO

**Fact Sheet for Congressional
Requesters**

September 1989

**PAY FOR
PERFORMANCE**

**Agency Personnel
Directors' Views**





General Government Division

B-203022

September 15, 1989

The Honorable Norman D. Dicks
House of Representatives

The Honorable Vic Fazio
House of Representatives

The Honorable Steny H. Hoyer
House of Representatives

On May 27, 1988, you requested that we examine the Performance Management and Recognition System (PMRS), the government's pay-for-performance system for grades 13 through 15 supervisors and managers. On May 18, 1989, we issued a briefing report that summarized the results of our group discussions with PMRS employees and our interviews with SES members who manage PMRS employees.¹ The briefing report completed the first phase of our multiphase effort responding to your request for information on PMRS.

For the second phase of our effort, we sent letters to personnel directors at agencies having 50 or more PMRS employees to further validate the information presented in our briefing report. We asked the personnel directors to comment on (1) whether the views of employees at their agencies corresponded to employee views presented in the briefing report, (2) what notable successes directors have had in implementing PMRS, (3) whether PMRS has met their agencies' goals for a pay-for-performance system, and (4) suggested changes in the structure of PMRS. We sent a total of 46 letters and received 44 responses. Appendix II contains the letter we sent to personnel directors and appendix III contains a list of agencies that responded.

Our final report related to your request will summarize the results of a survey of state personnel directors on pay-for-performance systems. We will report the results of the state survey to you when we complete our work.

¹PAY FOR PERFORMANCE: Interim Report on the Performance Management and Recognition System (GAO/GGD-89-69BR, May 18, 1989).

RESULTS

In our briefing report, we found that most PMRS employees we spoke with indicated that PMRS was not fully meeting its objectives of motivating and rewarding employees. Nearly all of the employees we spoke with believed that performance was not a major factor in determining who received performance awards and that awards were too small to motivate them. About 80 percent of the personnel directors who responded to our letter said that the views of employees at their agencies either agreed with or generally corresponded to, the views presented in our briefing report.

In response to other questions in our letter, about 14 percent of the personnel directors reported that employees at their agencies viewed the system or parts of the system more positively than the employees interviewed for our briefing report. About 73 percent of the directors said PMRS did not meet, or only partially met, the goals their agencies wanted to achieve through a pay-for-performance system. Although the personnel directors expressed little agreement on how PMRS should be changed, two suggestions cited more often than any others were (1) to give agencies more flexibility in designing a pay-for-performance system that fits their goals and culture, and (2) to increase funding for performance awards.

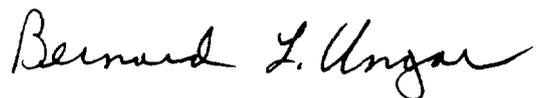
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More detailed comments on the views of agency personnel directors are included in appendix I. In their responses, personnel directors said their perceptions of employee attitudes and views of PMRS were based on a variety of sources. These sources included (1) past agency studies that reported PMRS views by agency employees, (2) formal and informal attitude surveys of current PMRS employees done in order to respond to our letter of inquiry, and (3) personnel directors' overall knowledge and experience in managing their agencies' PMRS programs. Because of time constraints, we did not verify the personnel directors' statements on the operation of PMRS or on the views of their agencies' employees. Our work was done between June and August 1989, in accordance with generally accepted government auditing standards.

Copies of this fact sheet are being sent to the Chairmen of the House Committee on Post Office and Civil Service and the Senate Committee on Governmental Affairs; the Director of the Office of Personnel Management; and other interested parties.

B-203022

Major contributors to this report are listed in appendix IV.
If you have any questions on this fact sheet, please call me on
275-5074.

A handwritten signature in cursive script that reads "Bernard L. Ungar".

Bernard L. Ungar
Director, Federal Human Resource
Management Issues

AGENCY PERSONNEL DIRECTORS' VIEWS OF PMRS

In our briefing report, we found that most PMRS employees we spoke with indicated that PMRS was not fully meeting its objectives to motivate and to reward employees. Nearly all of them believed that performance was not a major factor in determining who received performance awards and that awards were too small to motivate employees. They also did not feel that PMRS improved communication about performance standards and feedback about job performance.

Although most employees we spoke with were unhappy with PMRS, they had few suggestions for improving the system. Most did not support adopting a two-tier rating system nor did they support using an awards panel to make performance award decisions. Most employees we spoke with strongly supported increasing the pay of managers and supervisors.

VIEWS OF EMPLOYEES AT OTHER AGENCIES
REPORTEDLY CORRESPOND TO THOSE
PRESENTED IN OUR BRIEFING REPORT

About 55 percent of the personnel directors responding to our letter said that the views of employees at their agencies corresponded to employee views presented in our briefing report. Another 25 percent said that the views of their agencies' employees generally corresponded but were different in a few areas. According to personnel directors at these agencies, employees believed that (1) PMRS improved communication between managers and their superiors, (2) management did not force the distribution of ratings, (3) employees were not inappropriately placed in PMRS to increase pool funds, and (4) the use of a two-tier rating system was desirable. Only 6, or about 14 percent, of the personnel directors said their agencies' employees viewed the system or parts of the system more positively than the employee views cited in our briefing report. The remaining personnel directors did not comment on this issue.

SOME PERSONNEL DIRECTORS REPORTED
SUCCESS IN IMPLEMENTING
CERTAIN ASPECTS OF THE SYSTEM

Despite employees' overall dissatisfaction with PMRS, some personnel directors reported that their agencies had been successful in implementing certain aspects of the system. Some examples cited by personnel directors include (1) stressing the importance of performance standards and feedback to improve communication, (2) using funds available through the agency's

cash award program, (3) using one performance award pool to eliminate some variation in award sizes among different organizational groups, (4) increasing award sizes by making the minimum award size 4 percent for employees rated 2 levels above fully successful, and (5) giving performance awards to employees rated fully successful to minimize inflation of ratings.

PMRS HAS NOT MET AGENCIES'
GOALS FOR A PAY-FOR-
PERFORMANCE SYSTEM

Personnel directors expressed a variety of goals that their agencies wished to achieve through a pay-for-performance system. About 73 percent of the personnel directors said that PMRS has not met or has only partially met these goals. About 11 percent said PMRS did meet, or was capable of meeting, these goals. The remaining personnel directors did not say whether PMRS met their agencies' goals.

Ninety-one percent of the personnel directors said the system should motivate and reward high performance. Forty-one percent said the system should help attract and retain high-quality managers. Other goals cited included (1) maintaining equity (30 percent), (2) establishing meaningful performance appraisal (16 percent), (3) making supervisors accountable for achieving organizational goals (14 percent), (4) improving productivity or efficiency (14 percent), (5) establishing good communication of expectations (11 percent), and (6) integrating pay-for-performance with the agency's overall management system (7 percent).

PERSONNEL DIRECTORS EXPRESSED
LITTLE AGREEMENT ON HOW
PMRS SHOULD BE MODIFIED

Although the personnel directors expressed little agreement on how PMRS should be changed, two suggestions were cited more often than any others. About 73 percent wanted increased funding for performance awards and about 48 percent recommended that agencies be given greater flexibility to design a pay-for-performance system that fits agency goals and culture.

Personnel directors made approximately 30 other suggestions to reform PMRS. About 39 percent of the directors recommended changing the number of rating levels, but the recommendations were for two, three, and four levels, with no clear majority supporting any one alternative. Only about 4 percent suggested using an award panel process to grant performance awards and 7

percent said they definitely did not want to use an award panel process. About 23 percent of the personnel directors wanted to drop the mandatory 2-percent performance award for those employees rated 2 levels above fully successful. About 30 percent wanted to correct the inequity in the merit increase schedule that gives PMRS employees who are rated fully successful and whose salaries are in the middle third of their pay range smaller base salary increases than their General Schedule (GS) counterparts. Other suggestions included (1) eliminating merit increases and reinstating GS step increases, (2) giving larger merit increases, (3) limiting OPM to an advisory rather than a regulatory role, (4) simplifying the system, (5) substituting narratives for summary ratings, and (6) allowing group assessment.

LETTER SENT TO AGENCY PERSONNEL DIRECTORS

United States
General Accounting Office
Washington, D.C. 20548

General Government Division

June 27, 1989

On May 18, 1989 we issued the enclosed report on the Performance Management and Recognition System (PMRS). This report was based primarily on the views of 36 PMRS employees from four agencies who participated in group discussions we hosted and 6 SES members from those agencies who managed employees covered by PMRS. These employees indicated that PMRS is not fully meeting its objectives to motivate and reward employees.

We are continuing our work on PMRS in selected agencies and are seeking your assistance. We would like to hear about your agency's experiences under PMRS and ask that you respond, in writing, to the following questions.

- (1) How do you believe the views of PMRS employees at your agency correspond to those presented in our report? Do you believe the report accurately captures the system's major strengths and weaknesses?
- (2) If you believe that employees at your agency have a more positive view of PMRS than the employees we interviewed for our report, we would appreciate receiving any comments you may wish to offer on the basis for their positive perceptions. For example, has your agency, or any of its component units, implemented PMRS in a way that has made the system more successful? Would you please describe any lessons that can be learned from how such success has been attained?
- (3) What are the major goals your agency wants achieved through a pay-for-performance system for managers (for example, attracting employees to management positions, maintaining equity, motivating employees, or rewarding top performers)? Do you believe PMRS has helped you to achieve those goals?

- (4) What changes in the structure of PMRS would make the system more effective for your agency? Please consider the number of rating categories, the structure of merit increases and performance awards, and limits on funding. If you recommend an alternate system, what are the proposed system's key components?

Because we wish to provide Congress with information quickly and want your views considered, please respond as soon as possible. We have provided a pre-addressed envelope for your use, but in the event the envelope is misplaced, the return address is:

Bernard Ungar
Director, Federal Human Resource Management Issues
Room 3858A
U.S. General Accounting Office
441 G Street, NW
Washington, DC 20548.

If you have any questions, please contact me on 275-5074.
Thank you for your time and contribution to our effort.

Sincerely,

Bernard Ungar
Director, Federal Human Resource
Management Issues

AGENCIES RESPONDING TO OUR LETTER

1. ACTION
2. Agency for International Development
3. Commodity Futures Trading Commission
4. Consumer Product Safety Commission
5. Department of Agriculture
6. Department of the Air Force
7. Department of the Army
8. Department of Commerce
9. Department of Defense
10. Department of Education
11. Department of Health and Human Services
12. Department of Housing and Urban Development
13. Department of the Interior
14. Department of Justice
15. Department of Labor
16. Department of the Navy
17. Department of State
18. Department of Transportation
19. Department of the Treasury
20. Department of Veterans Affairs
21. Environmental Protection Agency
22. Equal Employment Opportunity Commission
23. Farm Credit Administration
24. Federal Communications Commission
25. Federal Emergency Management Agency
26. Federal Home Loan Bank Board
27. General Services Administration
28. International Trade Commission
29. Interstate Commerce Commission
30. Merit Systems Protection Board
31. National Aeronautics and Space Administration
32. National Archives and Records Administration
33. National Credit Union Administration
34. National Endowment for the Arts
35. National Endowment for the Humanities
36. National Labor Relations Board
37. National Science Foundation
38. Office of Personnel Management
39. Pension Benefit Guaranty Corporation
40. Railroad Retirement Board
41. Securities and Exchange Commission
42. Small Business Administration
43. Smithsonian Institution
44. U.S. Information Agency

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